COMPANY RESULTS

Kossan Rubber (KRI MK)

2Q25: Weakness Persists On Multiple Headwinds; Better 2H25 Ahead

Kossan reported softer earnings in 2Q25, dragged by declining volume sales and temporary plant closure due to Putra Heights' explosion incident in April. Positively, better operating efficiency, lower input cost and strong interest income partially offset these weaknesses. Moving forward, we anticipate a positive backdrop from the US' re-initiated replenishment activities. Kossan's strong balance sheet also remains as a key re-rating catalyst. Maintain BUY and target price of RM1.57.

2Q25 RESULTS

Year to 31 Dec (RMm)	2Q25	qoq % chg	yoy % chg	1H25	yoy % chg	Comments
Revenue	**382.2**	**(21.6)**	**(11.1)**	**869.5**	**(1.4)**	QoQ weaker on 10-days plant closure and weaker US demand
EBITDA	**63.4**	**(13.4)**	**(4.9)**	**136.7**	**2.1**	
EBIT	**38.5**	**(19.5)**	**(0.3)**	**86.4**	**8.4**	
Finance costs	(0.0)	(94.1)	(52.5)	(0.7)	392.8	
Pre-Tax Profit	**38.5**	**(18.5)**	**(0.2)**	**85.7**	**7.7**	
Tax	(7.1)	(36.9)	10.0	(18.3)	19.0	
Core Profit	**24.4**	**(19.7)**	**(8.9)**	**54.9**	**5.7**	Declining sales volume
Margins (%)		**qoq ppt chg**	**yoy ppt chg**		**yoy ppt chg**	
EBITDA Margin	16.6	1.6	1.1	15.7	0.5	
EBIT Margin	10.1	0.3	1.1	9.9	0.9	Higher ASP, lower input cost
Eff. tax rate	(18.4)	5.4	(1.7)	(21.3)	(2.0)	
Core Margin	6.4	0.2	0.2	6.3	0.4	QoQ lower OPEX

Source: Kossan, UOB Kay Hian

RESULTS

- **Within our but below consensus' expectations.** Kossan Rubber (Kossan) reported 2Q25 core profit of RM24.4m (-20% qoq; -9% yoy), after adjusting a one-off fair value gains on financial asset, derivatives and unrealised forex amounting to RM6.7m. The lacklustre results mainly reflect weakness in volume sales as customers held back on purchases amid US tariff uncertainty, and the 10-day plant closure due to the earlier Putra Heights gas explosion incident. 1H25 core earnings accounted for 51% of our and 39% of the consensus' projected 2025 earnings, respectively.

KEY FINANCIALS

Year to 31 Dec (RMm)	2023	2024	2025F	2026F	2027F
Net turnover	1,586	1,907	1,939	2,008	2,223
EBITDA	73	159	145	169	170
Operating profit	73	159	57	88	95
Net profit (rep./act.)	31	97	106	135	149
Net profit (adj.)	31	97	106	135	149
EPS (sen)	1.2	3.8	4.2	5.3	5.8
PE (x)	160.0	51.2	29.5	23.2	21.1
P/B (x)	1.3	1.4	0.9	0.9	0.9
EV/EBITDA (x)	54.9	25.1	14.7	12.7	12.5
Dividend yield (%)	1.0	4.1	4.3	5.1	5.4
Net margin (%)	2.0	5.1	5.5	6.7	6.7
Net debt/(cash) to equity (%)	(32.7)	(25.1)	(27.9)	(32.3)	(37.3)
Interest cover (x)	44.9	116.9	n.a.	n.a.	n.a.
ROE (%)	0.8	2.6	2.9	3.7	4.1
Consensus net profit	-	-	139.5	170.5	196.4
UOBKH/Consensus (x)	-	-	0.76	0.79	0.76

Source: Kossan Rubber, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM1.23
Target Price	RM1.57
Upside	+27.6%

COMPANY DESCRIPTION

Rubber products manufacturer.

STOCK DATA

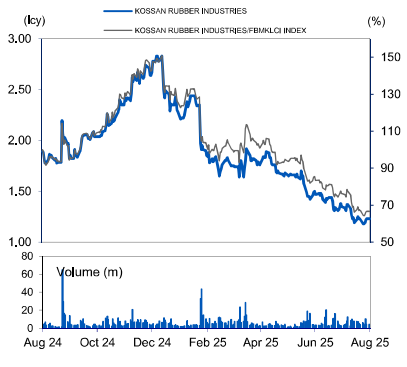
GICS sector	Health Care
Bloomberg ticker:	KRI MK
Shares issued (m):	2,530.4
Market cap (RMm):	3,112.4
Market cap (US$m):	736.3
3-mth avg daily t'over (US$m):	1.8

Price Performance (%)

52-week high/low				RM2.87/RM1.18
1mth	**3mth**	**6mth**	**1yr**	**YTD**
(10.9)	(26.8)	(35.6)	(37.2)	(56.5)

Major Shareholders	**%**
Kossan Holdings Sdn Bhd	35.29
Employees Provident Fund Board	5.78
Abrdn Plc	5.63
FY25 NAV/Share (RM)	1.42
FY25 Net Cash/Share (RM)	0.40

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- **Glove segment's topline declined on weaker volume sales...** In 2Q25, the glove segment's revenue dropped 24% qoq, which we attribute to lower sales volume as replenishment activities from US customers are softer due to tariff uncertainties and the 10-day production halt due to the earlier Putra Heights gas explosion incident. Meanwhile, the cleanroom and technical rubber segments also delivered weaker sales, at -10% and -5% qoq, respectively. Overall, sales demand for glove products have seen qoq weakness but we expect a meaningful uptick beginning in 2H25.

- **...but core profitability supported by better operating efficiency and strong interest income.** 2Q25 pre-tax profit for the glove segment dropped by 15% qoq to RM31m (1Q25: RM36m) due to lower revenue (-24% qoq). Positively, the glove segment's pre-tax profit margins have expanded by 1ppt qoq to 9.8ppt, reflecting: a) better operating efficiency, b) higher average selling price (ASP), and c) weakening natural rubber and nitrile cost (c.2-3% qoq). This offset the weakening of the US dollar against the ringgit (-3% qoq). Overall, the group's core net margins trended upward by 0.2ppt qoq.

STOCK IMPACT

- **A tactically better 2H25.** Despite softer 1H25 earnings due to US customers' frontloaded purchases from China manufacturers in 4Q24 ahead of higher tariffs, we anticipate meaningful pickup in 2H25, driven by a surge in US orders flowing into Malaysia. From 1Q25's low base, we estimate volume sales in 2H25 to be 15-20% higher and utilisation rate to improve to 66-70% (1Q25: c.60%) based on the current capacity of 24.5b gloves.

- **Shifting focus into specialty gloves.** Kossan plans to build a new cleanroom glove production line with around 720-840m pieces annual capacity by end-26 to produce Class 1,000 to Class 10,000 cleanroom gloves. Such penetration strategy into the more lucrative cleanroom segment, where customers are stickier, allows for differentiation from other local peers which typically focus on generic medical gloves. Specialty gloves also command higher ASPs and margins (3-4x vs generic gloves).

- **Healthy balance sheet with net cash still appealing.** Including cash and short-term money market investments, Kossan is in a cash-rich position of around RM1.65b net cash (c.65sen/share or 53% of its current market cap). This signifies that the group may further deploy better capital management with more special dividends as earnings momentum improve in 2H25-2026F.

EARNINGS REVISION/RISK

- **None.**

VALUATION/RECOMMENDATION

- **Maintain BUY with unchanged target price of RM1.57.** Our target price factors in the group's RM1.65b net cash position in view of better capital management and is pegged to 18x 2026F ex-cash PE (mean).

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

• **Environmental**
- **Environmental compliance.** Kossan's plants are ISO14001:2015 certified for Environmental Management Systems.
• **Social**
- **Human rights and labour management.** Practices a Zero-Cost Recruitment Policy.
• **Governance**
- **Board composition.** Kossan's board currently has nine members, comprising six executive directors and three independent non-executive directors.

ASSUMPTIONS

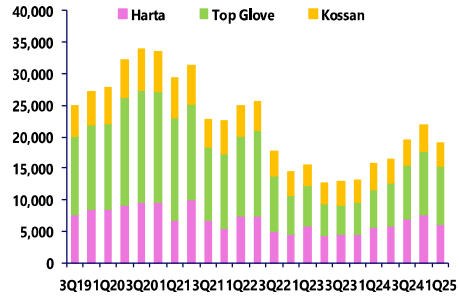
	2024	2025F	2026F
Revenue (RMm)	**1906.8**	**1939.2**	**2008.0**
Growth yoy (%)	20.2%	1.7%	3.6%
ASP (US$'000)	2.2%	0.4%	1.8%
Volume	40.0%	-2.9%	2.9%
Net profit	**97.3**	**106.4**	**135.1**
Growth yoy (%)	212.6%	9.3%	27.0%
Margin (%)	5.1%	5.5%	6.7%

Source: UOB Kay Hian

GLOBAL GLOVES DEMAND (B' PIECES)

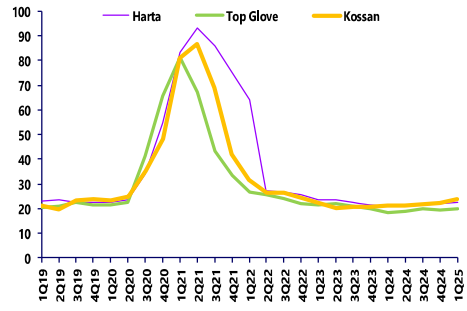
Source: Hartalega, International Trade Center (ITC)

MALAYSIAN GLOVE PLAYERS'QUARTERLY SALES VOLUME (M' PCS)



Source: Respective companies, UOB Kay Hian

MALAYSIAN GLOVE PLAYERS' QUARTERLY ASP CHART (USD' 1,000 PIECES)



Source: Respective companies, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Net turnover	**1,907**	**1,939**	**2,008**	**2,223**
EBITDA	159	145	169	170
Deprec. & amort.	0	88	81	75
EBIT	159	57	88	95
Associate contributions	0	0	0	0
Net interest income/(expense)	(1)	0	0	0
Pre-tax profit	**135**	**87**	**95**	**105**
Tax	(36)	144	183	201
Minorities	(2)	(35)	(45)	(49)
Net profit	97	(2)	(3)	(3)
Net profit (adj.)	**97**	**106**	**135**	**149**

BALANCE SHEET

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Fixed assets	1,489	1,067	986	961
Other LT assets	120	120	840	843
Cash/ST investment	974	1,070	1,219	1,392
Other current assets	1,507	1,743	1,058	1,165
Total assets	**4,090**	**4,000**	**4,103**	**4,362**
ST debt	59	33	33	33
Other current liabilities	235	172	175	193
LT debt	0	27	27	27
Other LT liabilities	121	121	121	121
Shareholders' equity	3,646	3,616	3,592	3,571
Minority interest	29	32	35	38
Total liabilities & equity	**4,090**	**4,001**	**3,983**	**3,983**

CASH FLOW

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Operating	**125**	**37**	**96**	**32**
Pre-tax profit	135	144	183	201
Tax	(36)	(35)	(45)	(49)
Deprec. & amort.	0	88	81	75
Associates	0	0	0	0
Working capital changes	142	(73)	(28)	(89)
Non-cash items	1	(87)	(95)	(105)
Other operating cashflows	67	0	0	0
Investing	**(169)**	**88**	**97**	**57**
Capex (growth)	(302)	0	0	(50)
Others	133	(30)	(739)	(729)
Financing	**50**	**(137)**	**(161)**	**(172)**
Dividend payments	0	(136)	(159)	(170)
Proceeds from borrowings	0	0	0	0
Loan repayment	49	1	0	0
Others/interest paid	1	(2)	(2)	(2)
Net cash inflow (outflow)	190	(11)	32	(82)
Beginning cash & cash equivalent	1,271	976	965	997
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	**1,462**	**965**	**997**	**915**

KEY METRICS

Year to 31 Dec (%)	2024	2025F	2026F	2027F
Profitability				
EBITDA margin	8.4	7.5	8.4	7.7
Pre-tax margin	7.1	7.4	9.1	9.0
Net margin	5.1	5.5	6.7	6.7
ROA	2.3	2.6	3.3	3.5
ROE	2.6	2.9	3.7	4.1
Growth				
Turnover	20.2	1.7	3.6	10.7
EBITDA	118.8	(9.1)	16.5	0.9
Pre-tax profit	156.5	6.3	27.0	9.9
Net profit	212.6	9.3	27.0	9.9
Net profit (adj.)	212.6	9.3	27.0	9.9
EPS	212.6	9.3	27.0	9.9
Leverage				
Debt to total capital	1.6	1.6	1.6	1.6
Debt to equity	1.6	1.7	1.7	1.7
Net debt/(cash) to equity	(25.1)	(27.9)	(32.3)	(37.3)
Interest cover (x)	116.9	n.a.	n.a.	n.a.